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VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 329 **February, 1988**

Business In Virginia January,1988 Data

During January new car registrations and building permits statewide did not rebound from the depressed levels of a year ago. In January of 1987, new car sales fell 16.8 percent. This year they rose by only 0.7 percent, so there has been no recovery yet in Virginians' demand for new cars. Similarly, last January we witnessed a 33.8 percent decline in the dollar volume of building permits. This January there was a further decline of 2.2 percent.

Retail sales by our sample of stores increased a mild 1.1 percent in January, showing no real change in the volume of goods sold.

Looking back to December, nonagricultural employment advanced 2.5 percent, the fourth consecutive month in which the gain from the same month a year ago has been 2.4 or 2.5 percent, showing steady job growth in Virginia.

The missing number in the tables is December taxable sales. The Virginia Department of Taxation monthly data for December 1987 give a 45.4 percent increase over December 1986. That is a huge overstatement, as we explained last month. The December 1986 sales were underreported, due to January 1987 snowstorms across the state delaying the receipt and recording of some of the December sales tax reports by the Department of Taxation. Therefore some of the sales made in December 1986 were recorded later as January sales. We know actual sales were not up 45 percent this Christmas. But, how good were they in reality? Our best guess is total Virginia retail sales inDecember 1987 were 8 to 10 percent above the 1986 level.

There is no reasonably accurate way for us to adjust the December 1986 sales on a city by city basis. Therefore we omitted the year-to-year changes in taxable sales from Table II, noting the data are not comparable for the two years. Last spring we found the most effective way to overcome the distortions in the December and January taxable sales figures was to take the average for the two months. We will use that approach again this year, once we have the January data. RLP

National Retail Sales

Nationally, retail sales in December were 0.2 percent below the December 1986 levels. Durable goods spending fell 5.4 percent compared to last year, led by an 11.8 percent decrease in sales of motor vehicle dealers. Furniture, home furnishings, and equipment stores also experienced a decline, dropping 3.2 percent.

Chart I

Nine Selected Business & Economic Indicators Percentage Change

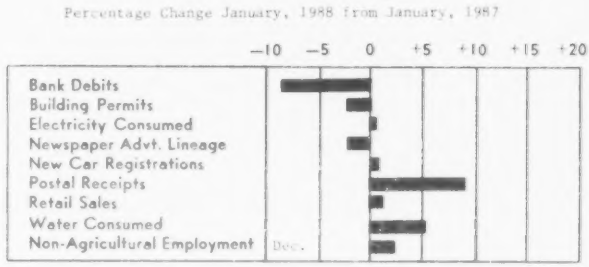
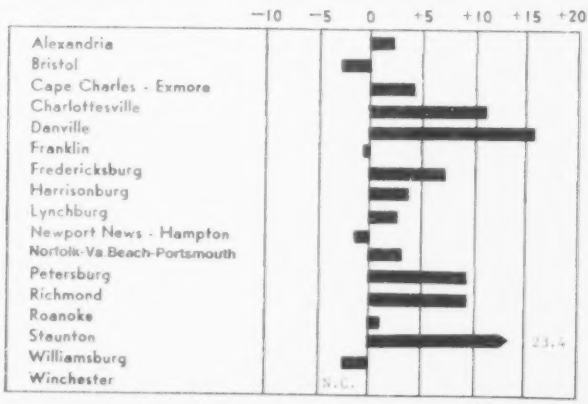


Chart II

City Indices



Nondurable goods sales were up only 3.5 percent, less than the rate of inflation. However, within that category general merchandise stores achieved an 8.0 percent gain, so not all types of retailers had a disappointing December.

The December results heightened concern that consumers might be cutting back in the coming months. Those concerns were eased by the February 11 advance release of the January retail sales figures. Durable goods purchases jumped 15.7 percent this January versus January 1987, led by a 26.7 percent gain for motor vehicle dealers. Sales of nondurable goods rose a more modest 4.3 percent, led by an increase of 10.6 percent for general merchandise stores.

Overall, total retail sales nationally this January were 8.5 percent higher than in January 1987. That healthy growth is a very favorable sign that consumer demand remains strong.

Virginia Income for Three Quarters of 1987

The U. S. Department of Commerce released the third quarter state personal income estimates in January. We calculated the average levels for the first three quarters, to get a better fix on Virginia growth in 1987. For comparison, we also constructed three-quarter averages for the state in 1985 and 1986.

Table III shows Virginia income, in total and by industry, for three quarters of 1987, at a seasonally adjusted annual rate. In addition, percentage changes are shown for the three quarter averages for 1985-1986 as well as 1986 to 1987.

The last column in Table III contains an additional comparison, Virginia growth versus the nation's growth for the first three quarters of 1987. This column consists of the Virginia percentage change 1986 to 1987 minus the United States percentage change for the same period. Thus, positive differences in that column reveal the extent to which, and sectors in which, Virginia's income growth exceeded the national rate. The few negatives in the column indicate the Virginia sectors that grew more slowly than the national average.

Virginia resident personal income for the first three quarters of 1987 averaged $94.7 billion at an annual rate, up 7.1 percent from the same period in 1986. That growth rate is 0.9 percent below the 8.0 percent rise in 1986. However, these measures are in current dollars, not adjusted for inflation. Since inflation in 1987 was almost twice the rate for 1986, real income growth slowed more dramatically. The analysis here will be limited to current dollar comparisons.

The second row in the table is total earnings by place of work, consisting of wages and salaries plus sole proprietors' income, and represents the direct earnings by labor in Virginia. This labor income of $68.9 billion is considerably less than total personal income since the latter, broader measure includes profits, dividends and interest, rents and transfer payments such as social security, unemployment and welfare. Labor income by place of work, however, grew at an 8.9 percent rate in 1987, significantly higher than the gain in total personal income.

Looking down the two columns showing Virginia's growth rates for 1986 and 1987, one can see that the data confirm other evidence of decelerating growth in Virginia. In total and in all but a few categories, Virginia's income and earnings in 1987 have grown more slowly than in 1986. The exceptions include mining where earnings have risen 3.8 percent after a decline of 2.0 percent in 1986; Federal civilian earnings, up 2.5 percent in 1987 after practically no change in 1986; and Federal military wages and salaries, up 6.4 percent compared to 5.8 percent last year. Finally, the finance, insurance, and real estate (FIRE) sector recorded a booming 20.4 percent growth in 1987, even higher than the 17.9 percent in 1986.

The private services sector maintained steady growth in earnings at a 12.6 percent rate, matching last year's 12.5 percent rise. This sector remains the major source of earnings growth in Virginia, a role it will retain for many years to come even though its growth in real terms is slowing and will continue to do so.

All other industry sectors experienced slower earnings growth during the first nine months of 1987 than during the same period in 1986.

In general, Virginia experienced slower income growth in 1987, but our growth remained higher than the national rates. Total resident personal income in Virginia grew 1.4 percentage points faster than the nation's income during the first three quarters. Labor earnings here outpaced the nation by an even wider margin, 2.5 percent.

By sectors, the Virginia construction industry outperformed the nation by the widest margin, with growth 7.6 percentage points above the national pace. The FIRE sector had the second widest margin, 6.0 percent.

Manufacturing earnings in Virginia have recorded gains, up 5.0 percent in 1987. That is 2.3 percentage points above the national growth rate. Continued growth in manufacturing will be an important contributor to Virginia's overall growth in the near future as well as over the long run, and such growth represents a cornerstone of Virginia's ability to generate income from outside of its bor-

ders. Manufacturing earnings growth, however, has been dwarfed in recent years by the booming advances in construction, FIRE, and services, and it will continue to be lower than service sector growth for the foreseeable future.

Some observations on the retail trade sector are appropriate. Retail trade earnings soared in 1986, up 11.2 percent. In 1987, the growth rate has slowed dramatically to 7.4 percent. That still is higher than the national growth in retail earnings, but only by 1.5 percent. That supports the prediction we have made several times in the past year that Virginia's extraordinary boom in retail trade will slow to a growth rate more in line with the overall income growth in the state. We still expect retail trade income and jobs in Virginia to grow more rapidly than nationwide, but by a much narrower margin than we have seen in recent years.

RLP

SELECTED BUSINESS AND ECONOMIC INDICATORS
FOR 17 CITIES

TABLE I January, 1988

Monthly Index Number Comparisons of Current Month to Same Month in Base Period [1977] - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWSPAPER ADV. LINAGE	NEW CAR REGISTRATIONS	December NON AGRICULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES†	POSTAL RECEIPTS
The State		394.6	125.8	190.5	81.2	136.3	141.1	91.2	128.1	384.8
Alexandria	143.6	474.3	469.5	222.6	N.A.	114.9	190.0	85.4	139.8	N.A.
Bristol	129.1	N.A.	83.5	137.1	58.7	68.8	117.5	114.8	118.8	109.0
Cape Charles - Exmore	132.7	N.A.	299.9	157.7	N.A.	68.3	N.A.	N.A.	121.8	205.0
Charlottesville	149.4	195.1	280.0	175.9	N.A.	106.3	111.9	114.7	179.1	N.A.
Danville	121.8	N.A.	53.6	119.6	93.8	85.0	98.3	86.4	N.A.	247.5
Franklin	123.5	N.A.	228.4	131.5	110.3	91.8	N.A.	89.9	102.2	217.6
Fredericksburg	147.2	201.6	139.9	N.A.	131.2	166.5	N.A.	77.0	177.1	1261.1
Harrisonburg	141.2	249.3	260.5	N.A.	104.9	90.3	N.A.	138.3	130.5	260.5
Lynchburg	259.7	415.1	86.7	149.9	N.A.	102.6	99.9	92.0	175.2	1105.7
Newport News - Hampton	134.7	N.A.	309.7	156.2	79.1	78.9	139.3	113.8	170.3	N.A.
Norfolk - Portsmouth	158.3	516.6	131.8	211.5		89.9		88.1	208.4	N.A.
Petersburg	127.6	195.8	460.5	N.A.	29.6	81.9	130.9	148.7	134.4	235.1
Richmond	130.8	415.1	126.0	210.8	100.6	113.0	124.0	105.6	105.2	333.1
Roanoke	129.4	358.0	39.8	162.6	127.9	80.2		109.7	92.1	334.1
Staunton	120.0	179.0	31.5	N.A.	73.3	80.8	N.A.	N.A.	121.2	226.4
Williamsburg	136.8	152.2	10.0	211.9	N.A.	118.6	N.A.	81.5	88.1	278.3
Winchester	N.C.	351.3	25.7	140.3	N.A.	120.7	N.A.	N.A.	N.A.	N.A.

TABLE II January, 1988

Percentage Change from same month last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWSPAPER ADV. LINAGE	NEW CAR REGISTRATIONS	December NON AGRICULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	December RETAIL SALES ‡
The State		-6.4	-2.2	11.6	-2.0	0.7	2.5	5.1	1.1	N.C.
Alexandria	2.1	2.3	-14.8	26.1	N.A.	-1.0	1.6	-5.9	1.2	N.C.
Bristol	-2.6	N.A.	488.1	5.0	-23.8	1.2	-4.2	5.3	-4.9	N.C.
Cape Charles - Exmore	4.2	N.A.	191.4	10.4	N.A.	10.3	N.A.	-10.4	4.4	N.C.
Charlottesville	11.2	-10.2	183.2	22.2	N.A.	11.9	1.8	1.7	9.1	N.C.
Danville	15.9	N.A.	-40.0	-0.5	6.8	11.6	0.9	N.A.	N.A.	N.C.
Franklin	-0.3	N.A.	101.8	8.9	0.1	-27.8	N.A.	-4.2	-11.6	N.C.
Fredericksburg	1.3	12.1	19.1	N.A.	-1.6	-1.5	N.A.	28.1	8.8	N.C.
Harrisonburg	3.7	4.2	-1.0	N.A.	4.1	17.1	N.A.	17.2	-9.1	N.C.
Lynchburg	2.1	-21.8	-41.2	3.7	N.A.	21.5	1.5	-18.8	-3.8	N.C.
Newport News - Hampton	-1.8	N.A.	20.8	9.2	-9.5	-21.4	2.8	2.9	0.6	N.C.
Norfolk - Va. Beach - Portsmouth	2.9	-20.1	-1.3	12.7		-25.8		8.9	-1.3	N.C.
Petersburg	9.6	28.3	317.2	N.A.	-6.7	12.6	2.8	-2.6	-1.0	N.C.
Richmond	9.4	-2.9	-21.8	18.3	9.4	14.1		8.3	8.1	N.C.
Roanoke	0.7	-2.9	-54.7	4.7	0.9	-1.4	2.9	13.8	-5.4	N.C.
Staunton	23.4	7.6	-34.3	N.A.	8.0	27.0	N.A.	N.A.	27.1	N.C.
Williamsburg	-1.4	-3.2	-82.7	12.3	N.A.	-10.3	N.A.	-16.2	0.0	N.C.
Winchester	N.C.	-2.3	-75.1	6.3	N.A.	35.1	N.A.	N.A.	N.A.	N.C.

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.
#Virginia Employment Commission data which lags behind current reports.
†Preliminary data based on a survey sample.
‡Revised data based on sales tax information which lags behind current reports.
Only total MSA data are available for these areas
N.C.-December 1987 and December 1986 reports not comparable

N.A. — Not Available
0.0 — No Change

TABLE III Virginia Personal Income and Earnings by Industry, Seasonally Adjusted Annual Rate, 1987 Level in Millions and Percent Changes for Quarters I-III, 1986 and 1987

	1987 Level ($Millions)	Percent Change 1985-1986	Percent Change 1986-1987	Percent Change Virginia minus U.S. 1986-1987
Total Personal Income by Place of Residence	$94,724	8.0%	7.7%	1.4%
Total Earnings by Place of Work	68,911	9.2	8.9	2.5
Earnings by Industry				
Farm	422	9.9	23.0	3.0
Nonfarm	68,469	9.2	8.8	2.7
Private	51,423	10.5	9.6	3.5
Ag. Services, Forestry and Fisheries	268	19.8	1.5	-1.4
Mining	856	-2.0	3.8	6.6
Construction	5,317	16.7	13.3	7.6
Manufacturing	10,940	5.6	5.0	2.3
Nondurable Goods	5,452	5.7	5.1	0.6
Durable Goods	5,489	5.4	4.9	3.3
Transportation and Public Utilities	4,772	7.2	6.2	1.2
Wholesale	3,587	9.7	7.1	2.5
Retail Trade	6,545	11.2	7.4	1.5
Finance, Insurance, and Real Estate	3,872	17.9	20.4	6.0
Services	15,266	12.5	12.6	4.3
Government	17,046	5.7	6.5	0.0
Federal, Civilian	5,347	0.2	2.5	-0.5
Military	4,619	5.8	6.4	2.1
State and Local	7,080	10.4	9.9	1.9

Source: Regional Economic Information System
Bureau of Economic Analysis, January 1988

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